
31 January 2020

Via Engage Victoria website

**RE: Submission to Target Setting for Victorian Energy Upgrades (VEU)**

Thank you for the opportunity to make a submission to the Regulatory Impact Statement assessing the proposed Victorian Energy Efficiency Target (VEET) Regulations 2018 which form part of the *Victorian Energy Efficiency Target Act 2007.*

We welcome this opportunity to contribute to the RIS process and hope that our recommendations are given full consideration and adopted as part of the reform package.

The signatories to this letter welcome the Andrews government's proposed, expanded emissions reductions targets as part of its review of the regulations governing the Victorian Energy Upgrades program. We encourage the government to use this program to play a significant role in achieving interim emissions targets that are consistent with the objectives of the Paris Climate Agreement – meaning staying "well below two degrees" and aiming to limit warming to 1.5 degrees. The current bushfire crisis reminds us all of just how urgently we need to cut greenhouse gas emissions.

The successful VEU program must continue to deliver emissions reductions through reduced energy demand for households and businesses. Our submission focusses on the potential increased emissions reductions, and other benefits, the program could deliver with an even higher level of policy ambition.

**Expanded emissions reduction target**

We are pleased to see the increased level of emissions abatement ambition outlined in the department's preferred option (option four) in the Regulatory Impact Statement (RIS).

Since 2009, the Victorian Energy Upgrade (VEU) program has steadily increased the number of annual certificates (or tonnes of abatement across ten years) from 2.7 million certificates created in 2009 to 6.5 million certificates in 2020. Option four outlined in the RIS proposes an annual increase in certificates of approximately 3% per year, rising to 7.3 million certificates by 2025, representing 40.6 megatonnes (MT) of avoided greenhouse gas (GHG) emissions over 30 years. This increased policy ambition is to be commended.

However, signatories to this letter propose that option five be adopted, as the additional costs associated with this option will be outweighed by its increased emissions abatement (discussed below) and flow-on benefits to program participants, such as through reduced energy bills. Further, we suggest that any cost increases, especially to vulnerable Victorians, can be managed by targeted, government support (discussed below).

The increased emissions reductions that would be achieved under option five compared with option four are not insignificant. Option four will produce 40.6 MT CO2-e abatement over 30 years, compared with option five's 45.4 MT CO2-e, a difference of 4.8 MT CO2-e.

We consider this to be a significant amount of additional CO2 abatement which can and should be pursued under the scheme to ensure the state government is able to achieve interim emissions reductions targets that are consistent with the objectives of the Paris Agreement. If the state government is to achieve credible targets, it will need to pursue ambitious and urgent improvements in energy efficiency, which represents a very cost-effective approach to emissions reduction. Option five represents a better approach to achieving these goals.

**Costs**

A primary consideration for the department's preference for option four over option five outlined in the RIS is the former's lesser impact on energy bills for non-participants of the scheme. While we applaud the government's focus on attempting to minimise cost-of-living pressures on Victorians, especially low income households, we suggest that option five would impose minimal additional costs compared with option four, and that these costs can be managed.

The projected cost of option four to non-participants' energy bills is expected to be $67 over the 2021-2050 period. This translates, on average, to $2.31 per household, per year over 29 years. The figure for option five is $287 over the same period, or $9.90 per household, per year. At less than $10 per year per household, it could be argued that option five poses a reasonable cost to transition to a zero carbon economy. Further, the department's analysis demonstrates that any increased electricity costs to residential non-participants are not expected to occur until 2031-40, and this increase will reduce substantially from 2041-50.

While not dismissing the impacts of increased costs on Victorians, we suggest the additional costs under option five are not excessive and that the projected increases in electricity prices will not be felt for almost a decade. Further, the approach to managing cost impacts for non-participating households should be a concerted effort to enable them to participate, not to lower the ambition of what the program can achieve.

**Managing costs for vulnerable Victorians**

We are pleased that the department is aware of the need to protect low income households from any energy price rises associated with the VEU, committing to "…continue to investigate how the program can continue to deliver for low income households" (DELWP 2019, p. 9). Given that option five will result in a price increase to residential non-participants, and noting the department's commitment to vulnerable Victorians, we propose that a portion of all VEU upgrades be allocated to low income households. For example, the regulations could require that a certain number of certificates are apportioned to public, social or community housing providers each year. The cost of this would likely be reflected in slightly higher certificate prices for others. This would have the effect of increasing the pass through costs of the scheme to other participants and non-participants, including households and industry, thereby distributing the cost of the program away from those least able to pay.

**Summary of recommendations**

1) Adopt option five of the RIS
2) Mitigate the increased costs to household non-participants by requiring a percentage of all certificates be provided to low income households, such as public, social or community households.

**Conclusion**

The devastating Australian bushfires this summer have highlighted the urgency of meaningful and rapid climate change action. Therefore, we call on the Andrews Government to adopt policies and programs that reflect that urgency. Option five takes us on a more ambitious pathway towards net zero emissions required under the Climate Change Act 2017.

Thank you once again for the opportunity to contribute to the Regulatory Impact Statement assessing the proposed Victorian Energy Efficiency Target (VEET) Regulations 2018 which form part of the *Victorian Energy Efficiency Target Act 2007.* The signatories to this letter urge the adoption of the above recommendations to ensure Victoria is put on an emissions trajectory that meets the objectives of the Paris Agreement, whilst ensuring any cost impacts on vulnerable Victorians are minimised or avoided.